

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 228 – SB 231

June 3, 2010

SUMMARY OF AMENDMENTS (019109, 019325): Amendment 019109 deletes the language of the original bill and adds new language that authorizes a refund of state and local sales taxes on the retail sale of certain items of tangible personal property when sold to a natural person who has received disaster assistance through the Federal Emergency Management Agency (FEMA). Eligible items include major appliances, residential building supplies, and residential furniture as defined. Such items must be purchased between May 1, 2010, and September 30, 2010. Requires all such eligible items which are sold under the proposed refund to be utilized in the person's primary residence for the purposes of restoration, repair, and replacement or rebuilding due to disaster damage occurring between May 1, 2010, and May 8, 2010. Authorizes the Department of Revenue (DOR) to assess civil penalty not to exceed \$25,000 for reporting false information. Requires that all refunds be paid from the General Fund. Makes declaration that nothing within the amendment should be construed to reduce the amount of sales and use tax payable to local governments. Creates a study committee to examine and make recommendations regarding fiscal policy on the issue of natural disasters. Such members of the study committee shall meet only during session of the General Assembly and shall report its findings and recommendations to the General Assembly by April 1, 2011, at which time the committee shall cease to exist.

Amendment 019325 changes references of "funds from the American Recovery and Reinvestment Act of 2009" to "federal funds allocated to the state" in regards to the wastewater facility and drinking water revolving loan funds.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue - \$200,000

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Decrease State Revenue – Exceeds \$19,950,000/One-Time
Increase State Expenditures – Not Significant

Other Fiscal Impact - The Department of Environment and Conservation will provide approximately \$55,750,000 in state and federal funds from the Clean Water and Drinking Water State Revolving Fund for low-interest loans to

local governments and utility districts for drinking water and waste water improvements in FY10-11. Twenty percent, or \$11,150,000, will be provided through a forgiveness of principal or grant that will not be repaid to the fund. Of this amount, \$2,230,000 (20%) are state funds and \$8,920,000 (80%) are federal funds that will not be repaid to the revolving fund.

Assumptions applied to amendment 019109:

- Based on information provided by the Department of Revenue, taxable sales for eligible items are likely to exceed \$210,000,000.
- Refunds for both state and local sales tax will be paid from the state's General Fund.
- Local government revenue will not be impacted.
- A combined state and local sales tax rate of 9.5 percent (7.0 percent state rate; and 2.5 percent local option rate).
- The one-time decrease to state revenue from the General Fund is estimated to exceed \$19,950,000 ($\$210,000,000 \times 9.5\% = \$19,950,000$).
- Any cost of studying fiscal policy on the issue of natural disasters is considered to be not significant because members of the study committee will only meet when the legislature is in session.

Assumptions applied to amendment 019325:

- The Department of Environment and Conservation will provide approximately \$55,750,000 in state and federal funds from the Clean Water and Drinking Water State Revolving Fund for low-interest loans to local governments and utility districts for drinking water and waste water improvements in FY10-11.
- According to the Department, the FY09-10 federal congressional appropriation requires that 20 percent be provided through a forgiveness of principal. This will effectively turn \$11,150,000 ($\$55,750,000 \times 20\%$) into a grant that will not be repaid to the fund.
- Of this amount, \$2,230,000 ($\$11,150,000 \times 20\%$) are state funds and \$8,920,000 ($\$11,150,000 \times 80\%$) are federal funds that will not be repaid to the revolving fund.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc